

**REPORT OF THE AUDIT OF THE
GRAYSON COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GRAYSON COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Grayson County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$4,256,648 as of June 30, 2004. The fiscal court had unrestricted net assets of \$2,055,168 in its governmental activities as of June 30, 2004, with total net assets of \$4,165,092. In its enterprise fund, total net cash and cash equivalents were \$80,675 with total net assets of \$91,556. The fiscal court had total debt principal as of June 30, 2004 of \$9,551,430 with \$347,364 due within the next year.

Report Comments:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.
- Magistrates Should Be Reimbursed For Automobile Usage Based On The County's Mileage Rate.

Deposits:

As of June 30, 2004, \$363,682 of the fiscal court's deposits were uninsured and uncollateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Grayson County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Grayson County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statement.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
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Members of the Grayson County Fiscal Court

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Grayson County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated August 9, 2005, on our consideration of Grayson County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits.
- Magistrates Should Be Reimbursed For Automobile Usage Based On The County's Mileage Rate.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 9, 2005

GRAYSON COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Gary Logsdon	County Judge/Executive
Steve Henderson	Magistrate
Alvin W. Dockery	Magistrate
Bill Skaggs	Magistrate
Randy Jason Dennis	Magistrate
Andy Logsdon	Magistrate
Curtis Wells	Magistrate

Other Elected Officials:

Thomas H. Goff	County Attorney
Joey F. Stanton	Jailer
Carletta Farris	County Clerk
Carroll Gibson	Circuit Court Clerk
David Simon	Sheriff
James Blanton	Property Valuation Administrator
Ronald Hudson	Coroner

Appointed Personnel:

Rebecca Hayse	County Treasurer
Larry Holeman	Occupational Tax Collector
Freida Alexander	Finance Officer

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GRAYSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

GRAYSON COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 2,425,569	\$ 80,675	\$ 2,506,244
Total Current Assets	<u>2,425,569</u>	<u>80,675</u>	<u>2,506,244</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	404,094		404,094
Buildings	10,354,092		10,354,092
Vehicles and Equipment	532,767	10,881	543,648
Total Noncurrent Assets	<u>11,290,953</u>	<u>10,881</u>	<u>11,301,834</u>
Total Assets	<u>13,716,522</u>	<u>91,556</u>	<u>13,808,078</u>
LIABILITIES			
Current Liabilities:			
Due Within One Year -			
Bonds Payable	250,000		250,000
Financing Obligations Payable	97,364		97,364
Total Current Liabilities	<u>347,364</u>		<u>347,364</u>
Noncurrent Liabilities:			
Due In More Than One Year -			
Bonds Payable	8,985,000		8,985,000
Financing Obligations Payable	219,066		219,066
Total Noncurrent Liabilities	<u>9,204,066</u>		<u>9,204,066</u>
Total Liabilities	<u>9,551,430</u>		<u>9,551,430</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	\$ 1,739,523	\$ 10,881	\$ 1,750,404
Restricted For:			
Debt Service Payments	370,401		370,401
Unrestricted	2,055,168	80,675	2,135,843
Total Net Assets	<u>\$ 4,165,092</u>	<u>\$ 91,556</u>	<u>\$ 4,256,648</u>

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GRAYSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

GRAYSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,959,786	\$ 69,408	\$ 1,064,405	\$
Protection to Persons and Property	5,432,602	6,194,727	141,802	87,935
General Health and Sanitation	117,557	650	10,436	
Social Services	1,949			
Recreation and Culture	53,358			
Roads	1,760,315		975,476	
Debt Service	499,599			
Capital Projects	36,206			
Total Governmental Activities	10,861,372	6,264,785	2,192,119	87,935
Business-type Activities:				
Jail Canteen	549,179	556,005		
Total Business-type Activities	549,179	556,005		
Total Primary Government	\$ 11,410,551	\$ 6,820,790	\$ 2,192,119	\$ 87,935

General Revenues:

Taxes:

Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Occupational Taxes
Other Taxes
Net Court Revenue
Excess Fees
Reimbursement
Telephone 911 Fee/Tax
Miscellaneous Revenues
Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (1,825,973)	\$	\$ (1,825,973)
991,862		991,862
(106,471)		(106,471)
(1,949)		(1,949)
(53,358)		(53,358)
(784,839)		(784,839)
(499,599)		(499,599)
(36,206)		(36,206)
(2,316,533)		(2,316,533)
	6,826	6,826
	6,826	6,826
(2,316,533)	\$ 6,826	\$ (2,309,707)
391,513		391,513
77,476		77,476
91,783		91,783
987,026		987,026
255,181		255,181
87,197		87,197
153,842		153,842
15,000		15,000
271,574		271,574
294,966		294,966
40,040		40,040
2,665,598		2,665,598
349,065	6,826	355,891
3,816,027	84,730	3,900,757
\$ 4,165,092	\$ 91,556	\$ 4,256,648

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

GRAYSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road And Bridge Fund	Jail Fund	Detention Facility Project Bond Fund	Non- Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 271,560	\$ 663,858	\$ 1,018,079	\$ 370,401	\$ 101,671
Total Assets	<u>\$ 271,560</u>	<u>\$ 663,858</u>	<u>\$ 1,018,079</u>	<u>\$ 370,401</u>	<u>\$ 101,671</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 271,560	\$	\$	\$	\$
Special Revenue Funds		663,858	1,018,079		101,671
Reserved:					
Debt Service Fund				370,401	
Fund Balances	<u>\$ 271,560</u>	<u>\$ 663,858</u>	<u>\$ 1,018,079</u>	<u>\$ 370,401</u>	<u>\$ 101,671</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

Total Governmental Funds
<hr/>
\$ 2,425,569
<hr/>
\$ 2,425,569
<hr/>

\$ 271,560
1,783,608
<hr/>
370,401
<hr/>

\$ 2,425,569

**Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets**

Total Fund Balances	\$ 2,425,569
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	13,572,765
Accumulated Depreciation	(2,281,812)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year Bonds and Financing Obligations Principal	(347,364)
Due In More Than One Year Bonds and Financing Obligations Principal	(9,204,066)
Net Assets Of Governmental Activities	<u>\$ 4,165,092</u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Jail Fund</u>	<u>Detention Facility Project Bond Fund</u>
REVENUES				
Taxes	\$ 1,132,681	\$ 641,566	\$	\$
In Lieu Tax Payments	14,173			
Excess Fees	153,842			
Licenses and Permits	6,774			
Intergovernmental	279,312	1,855,586	6,135,620	
Charges for Services			77,988	
Miscellaneous	116,039	23,544	179,943	
Interest	2,842	11,031	22,956	1,396
Total Revenues	<u>1,705,663</u>	<u>2,531,727</u>	<u>6,416,507</u>	<u>1,396</u>
EXPENDITURES				
General Government	827,755			
Protection to Persons and Property	133,267		4,667,075	
General Health and Sanitation	101,152			
Social Services				
Recreation and Culture	49,805			
Roads		1,813,850		
Debt Service	66,173	44,504		729,495
Capital Projects				
Administration	591,443	267,451	1,184,669	
Total Expenditures	<u>1,769,595</u>	<u>2,125,805</u>	<u>5,851,744</u>	<u>729,495</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(63,932)</u>	<u>405,922</u>	<u>564,763</u>	<u>(728,099)</u>
Other Financing Sources (Uses)				
Financing Obligations Proceeds		55,500		
Transfers From Other Funds	121,296			792,875
Transfers To Other Funds	(60,000)	(120,000)	(812,809)	
Total Other Financing Sources (Uses)	<u>61,296</u>	<u>(64,500)</u>	<u>(812,809)</u>	<u>792,875</u>
Net Change in Fund Balances	(2,636)	341,422	(248,046)	64,776
Fund Balances - Beginning (Restated)	274,195	322,436	1,266,125	305,625
Fund Balances - Ending	<u>\$ 271,559</u>	<u>\$ 663,858</u>	<u>\$ 1,018,079</u>	<u>\$ 370,401</u>

The accompanying notes are an integral part of the financial statements.

GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 271,574	\$ 2,045,821
	14,173
	153,842
	6,774
219,226	8,489,744
60,000	137,988
2,529	322,055
1,815	40,040
<u>555,144</u>	<u>11,210,437</u>
6,309	834,064
468,477	5,268,819
16,405	117,557
3,553	53,358
	1,813,850
49,402	889,574
36,206	36,206
74,493	2,118,056
<u>654,845</u>	<u>11,131,484</u>
<u>(99,701)</u>	<u>78,953</u>
	55,500
80,000	994,171
(1,362)	(994,171)
<u>78,638</u>	<u>55,500</u>
(21,063)	134,453
122,734	2,291,115
<u>\$ 101,671</u>	<u>\$ 2,425,568</u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

GRAYSON COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	134,453
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		211,360
Depreciation Expense		(359,232)

The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets.

Financing Obligation Proceeds		(55,500)
Financing Obligations Principal Payments		177,984
Bond Principal Payments		240,000

Change in Net Assets of Governmental Activities	\$	349,065
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GRAYSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

GRAYSON COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2004

	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 80,675
Total Current Assets	<u>80,675</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	17,468
Less Accumulated Depreciation	<u>(6,587)</u>
Total Noncurrent Assets	<u>10,881</u>
Total Assets	<u>91,556</u>
Net Assets	
Invested in Capital Assets,	
Net of Related Debt	\$ 10,881
Unrestricted	<u>80,675</u>
Total Net Assets	<u><u>\$ 91,556</u></u>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

GRAYSON COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Enterprise Fund
	<hr/>
	Jail Canteen Fund
	<hr/>
Operating Revenues	
Canteen Receipts	\$ 556,005
Total Operating Revenues	<hr/> 556,005 <hr/>
Operating Expenses	
Cost of Sales	244,830
Jail Fees	32,709
Inmate Accounts	2,184
Entertainment	17,021
Pay Commissary	113,089
Depreciation	3,294
Other	136,052
Total Operating Expenses	<hr/> 549,179 <hr/>
Operating Income	<hr/> 6,826 <hr/>
 Change In Net Assets	 6,826
Total Net Assets - Beginning	84,730
Total Net Assets - Ending	<hr/> \$ 91,556 <hr/>

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

GRAYSON COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 556,005
Cost of Sales	(244,830)
Jail Fees	(32,709)
Inmate Account	(2,184)
Entertainment	(17,021)
Pay Commissary	(113,089)
Other	(136,052)
Net Cash Provided By Operating Activities	10,120
Net Increase in Cash and Cash Equivalents	10,120
Cash and Cash Equivalents - July 1, 2003	70,555
Cash and Cash Equivalents - June 30, 2004	\$ 80,675

	Enterprise Fund
	Jail Canteen Fund
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 6,826
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities	
Depreciation Expense	3,294
Total Cash Provided By Operating Activities	\$ 10,120

The accompanying notes are an integral part of the financial statements.

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GRAYSON COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

**Jail
Inmate
Fund**

\$ 0

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Grayson County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The reporting entity includes no organizations that are legally separate from the primary government.

Kentucky law provides for the election of officials from the geographic area constituting Grayson County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional – Grayson County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Detention Facility Project Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office for Local Development does not require the fiscal court to report these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grant Fund, Disaster and Emergency Services Fund, Emergency 911 Fund, Detention Facility Project Construction Fund, and Building Equipment Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Disaster and Emergency Services Fund, and Emergency 911 Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Detention Facility Project Construction Fund and Building/Equipment Fund are presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Fund:

The Detention Facility Project Bond Fund is presented as debt service fund. The Debt service fund is use to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services and administrative expenses. The government has elected not adopt Financial Accounting Standards Board (FASB) Statements on Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements on Interpretations.

The government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund, the Jail Inmate Account, is used to account for inmate monies held by the Jailer for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The government reports the following fiduciary fund:

Jail Inmate Account - This fund accounts for funds received from inmates and held until inmate uses these funds.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 50,000	10-75
Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 15,000	3-25
Vehicles	\$ 12,500	3-25
Infrastructure	\$ 20,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

I. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Grayson County Fiscal Court: Grayson County Water Districts, Grayson County Soil Conservation District, Grayson County Extension Service, and Grayson County Library.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of June 30, 2004, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$363,682 of public funds uninsured and unsecured.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2004.

	<u>Bank Balance</u>
FDIC Insured	\$ 445,807
Collateralized with securities held by pledging depository institution in the County's name.	1,607,308
Uncollateralized and uninsured	<u>363,682</u>
Total	<u><u>\$ 2,416,797</u></u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 404,094	\$	\$	\$ 404,094
Total Capital Assets Not Being Depreciated	404,094			404,094
Capital Assets, Being Depreciated:				
Buildings	11,985,196			11,985,196
Vehicles and Equipment	972,115	211,360		1,183,475
Total Capital Assets Being Depreciated	12,957,311	211,360		13,168,671
Less Accumulated Depreciation For:				
Buildings	(1,417,150)	(213,954)		(1,631,104)
Vehicles and Equipment	(505,430)	(145,278)		(650,708)
Total Accumulated Depreciation	(1,922,580)	(359,232)		(2,281,812)
Total Capital Assets, Being Depreciated, Net	11,034,731	(147,872)		10,886,859
Governmental Activities Capital Assets, Net	<u>\$ 11,438,825</u>	<u>\$ (147,872)</u>	<u>\$ 0</u>	<u>\$ 11,290,953</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 17,468	\$	\$	\$ 17,468
Total Capital Assets Being Depreciated	17,468			17,468
Less Accumulated Depreciation For:				
Vehicles and Equipment	(3,293)	(3,294)		(6,587)
Total Accumulated Depreciation	(3,293)	(3,294)		(6,587)
Total Capital Assets, Being Depreciated, Net	14,175	(3,294)		10,881
Business-Type Activities Capital Assets, Net	\$ 14,175	\$ (3,294)	\$ 0	\$ 10,881

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the government as follows:

Governmental Activities:

General Government	\$ 7,666
Protection to Persons and Property	312,652
Social Services	1,949
Roads	<u>36,965</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 359,232</u>

Business-Type Activities

Jail Canteen	<u>\$ 3,294</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 3,294</u>

Note 4. Long-term Debt - Bonds

General Obligation Improvement Bonds, Series 1999

On September 1, 1999, the County issued \$9,700,000 of General Obligation Improvement Bonds, Series 1999, at various interest rate (5.0 percent through 5.375) for the purpose of construction of a Detention Center. These bonds are required to be fully paid within 25 years from the date of issue and are backed by the full faith and credit of the County. As of June 30, 2004, bonds outstanding were \$9,235,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 250,000	\$ 477,245
2006	265,000	464,370
2007	280,000	450,745
2008	290,000	436,495
2009	305,000	421,620
2010-2014	1,790,000	1,852,469
2015-2019	2,325,000	1,319,853
2020-2024	3,020,000	613,891
2025	<u>710,000</u>	<u>19,081</u>
Totals	<u>\$ 9,235,000</u>	<u>\$ 6,055,769</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations

A. Voting Machines

On December 18, 1997, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of voting machines in the amount of \$127,620 at 4.25 percent interest for a period of ten (10) years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004 was \$50,916. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 13,850	\$ 1,219
2006	14,397	885
2007	14,966	460
2008	7,703	66
Totals	<u>\$ 50,916</u>	<u>\$ 2,630</u>

B. Sheriff's Vehicles

On July 24, 2000, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding the Sheriff's vehicles in the amount of \$41,137 at 4.75 percent interest for a period of five (5) years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$9,664. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 8,910	\$ 166
2006	754	2
Totals	<u>\$ 9,664</u>	<u>\$ 168</u>

C. Ambulances

On February 20, 2000, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of ambulances in the amount of \$80,860 at 3.75 percent interest for a period of five (f) years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$11,721. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 11,721	\$ 131
Totals	<u>\$ 11,721</u>	<u>\$ 131</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

D. Ambulance

On July 20, 2001, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of ambulance in the amount of \$35,000 at 3.70 percent interest for a period of six (6) years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2004, was \$20,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 5,000	\$ 843
2006	5,000	606
2007	10,000	274
Totals	<u>\$ 20,000</u>	<u>\$ 1,723</u>

E. Computers and Copy Machine

On March 20, 2002, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of computers and a copy machine in the amount of \$22,000 at 3.25 percent interest for a period of four (4) years, with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$9,505. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 5,647	\$ 212
2006	3,858	49
Totals	<u>\$ 9,505</u>	<u>\$ 261</u>

F. Truck and Equipment

On May 28, 1999, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a truck and equipment in the amount of \$175,600 at 3.75 percent for a period of six (6) years with principal and interest paid monthly. The principal outstanding as of June 30, 2004, was \$16,545. Future principal and interest requirements are:

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

F. Truck and Equipment (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 16,545	\$ 308
Totals	<u>\$ 16,545</u>	<u>\$ 308</u>

G. Tractor and Mower

On May 16, 2001, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a tractor/mower in amount of \$60,000 at 3.48 percent interest for a period of five (5) years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2004, was \$30,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 15,000	\$ 1,064
2006	15,000	392
Totals	<u>\$ 30,000</u>	<u>\$ 1,456</u>

H. Trucks

On April 21, 2003, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of three trucks in amount of \$51,000 at 2.67 percent interest for a period of five (5) years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2004, was \$40,953. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 10,123	\$ 1,251
2006	10,199	907
2007	10,276	559
2008	10,355	208
Totals	<u>\$ 40,953</u>	<u>\$ 2,925</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

I. Truck and Backhoe

On December 23, 2003, the County entered into an agreement with Kentucky Association of Counties Leasing Trust (KACoLT) for funding of a truck and backhoe in amount of \$55,500 at 2.73 percent interest for a period of five (5) years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2004, was \$51,191. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 10,568	\$ 1,395
2006	10,895	1,655
2007	11,231	906
2008	11,578	521
2009	6,919	121
Totals	<u>\$ 51,191</u>	<u>\$ 4,598</u>

J. Dictaphone, Freedom Recording System

On June 19, 2003, the County entered into an agreement with Fleetwood Financial Corporation for funding for a Dictaphone, freedom recording system in the amount of \$15,712 at a variable interest rate for a period of five (5) years, with principal and interest paid yearly. The principal outstanding as of June 30, 2004, was \$10,509. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 2,233	\$ 897
2006	2,477	652
2007	2,749	381
2008	3,050	80
Totals	<u>\$ 10,509</u>	<u>\$ 2,010</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

K. Dictaphone, Freedom Recording System

On June 19, 2003, the County entered into an agreement with Fleetwood Financial Corporation for funding for a Dictaphone, freedom recording system in the amount of \$15,649 at a variable interest rate for a period of five (5) years, with principal and interest paid yearly. The principal outstanding as of June 30, 2004, was \$10,460. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 2,223	\$ 920
2006	2,466	677
2007	2,736	407
2008	3,035	107
Totals	<u>\$ 10,460</u>	<u>\$ 2,111</u>

L. Emergency 911 Equipment

On July 16, 1999, the County entered into an agreement with GTE Leasing Corporation for funding for 911 equipment in the amount of \$152,815 at 6.88 percent for a period of seven (7) years, with principal and interest paid monthly. Due to an increase in the cost of debt and a change in some of the equipment, the agreement was amended on May 4, 2000 to the amount of \$155,587 at 7.52 percent. The principal outstanding as of June 30, 2004, was \$54,966. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 25,403	\$ 3,274
2006	27,381	1,296
2007	2,182	14
Totals	<u>\$ 54,966</u>	<u>\$ 4,584</u>

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 9,475,000	\$	\$ 240,000	\$ 9,235,000	\$ 250,000
Financing Obligations	438,914	55,500	177,984	316,430	97,364
Governmental Activities Long-term Liabilities	<u>\$ 9,913,914</u>	<u>\$ 55,500</u>	<u>\$ 417,984</u>	<u>\$ 9,551,430</u>	<u>\$ 347,364</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$8,973 in interest on financing obligations and \$489,495 in interest on bonds and notes.

Note 7. Related Party Transaction

During the fiscal year, the County contracted with Mudd Construction to do the electrical work on a metal building at the Jail in the amount of \$4,250. Shawn Mudd, a former Jail employee owned an interest in Mudd Construction. The County Attorney reviewed this matter and did not believe that it violated the Grayson County Ethics Code.

Note 8. Employee Retirement System

The County has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1620 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 9. Deferred Compensation

On April 3, 2003, the Grayson County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862, or by telephone at (502) 573-7925.

Note 10. Insurance

For the fiscal year ended June 30, 2004, Grayson County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 11. Subsequent Events

The Grayson County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties on December 10, 2004 in the amount of \$300,000 for the purpose of financing the purchase of property. This is a variable rate lease with payments due the 20th of each month. Final payment is due on July 20, 2029.

Note 12. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental and business type activities is as follows:

GRAYSON COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 12. Changes in Accounting Principles and Prior Period Adjustments (Continued)

	Governmental Activities	Business-Type Activities
Beginning Balance	\$ 2,291,116	\$ 70,555
Capital Assets (net of accumulated depreciation) previously omitted	11,438,825	14,175
Long-Term Debt previously omitted	(9,913,914)	
Total Restated Beginning Balance	<u>\$ 3,816,027</u>	<u>\$ 84,730</u>

Note 13. Detention Center Accounting System

Beginning in fiscal year ended June 30, 2003, the County Jailer assumed responsibility for paying and accounting for Jail Fund expenditures. The County Treasurer still receives, deposits and records Jail Fund revenue in the receipts ledger, and receives and reconciles monthly bank statements to receipts. The County Jailer receives invoices from vendors, computes payroll for jail personnel, presents claims to fiscal court for approval, prepares Jail Fund checks, maintains the Jail Fund appropriation ledger and warrant distribution register, and reconciles monthly bank statements. Jail Fund checks are co-signed by the County Jailer, in addition to the County Judge/Executive and County Treasurer.

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GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,013,800	\$ 1,013,800	\$ 1,132,681	\$ 118,881
In Lieu Tax Payments	8,400	8,400	14,173	5,773
Excess Fees	57,870	153,770	153,842	72
Licenses and Permits	14,920	14,920	6,774	(8,146)
Intergovernmental Revenue	178,500	193,539	279,312	85,773
Charges for Services	25,300	25,300		(25,300)
Miscellaneous	46,000	46,000	116,039	70,039
Interest	7,000	7,000	2,842	(4,158)
Total Revenues	<u>\$ 1,351,790</u>	<u>\$ 1,462,729</u>	<u>\$ 1,705,663</u>	<u>\$ 242,934</u>
EXPENDITURES				
General Government	661,849	842,835	827,755	15,080
Protection to Persons and Property	107,250	136,936	133,267	3,669
General Health and Sanitation	91,912	104,175	101,152	3,023
Recreation and Culture	50,000	50,000	49,805	195
Debt Service	72,243	66,791	66,173	618
Administration	535,666	596,122	591,443	4,679
Total Expenditures	<u>\$ 1,518,920</u>	<u>\$ 1,796,859</u>	<u>\$ 1,769,595</u>	<u>\$ 27,264</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(167,130)</u>	<u>(334,130)</u>	<u>(63,932)</u>	<u>270,198</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds				
Transfers From Other Funds	120,000	120,000	121,296	1,296
Transfers To Other Funds	(60,000)	(60,000)	(60,000)	
Total Other Financing Sources (Uses)	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 61,296</u>	<u>\$ 1,296</u>
Net Changes in Fund Balance	(107,130)	(274,130)	(2,636)	271,494
Fund Balance - Beginning	<u>107,130</u>	<u>274,130</u>	<u>274,196</u>	<u>66</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 271,560</u>	<u>\$ 271,560</u>

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplemental Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 600,000	\$ 600,000	\$ 641,566	\$ 41,566
Intergovernmental Revenue	1,028,779	1,708,779	1,855,586	146,807
Miscellaneous	7,500	7,500	23,544	16,044
Interest	10,000	10,000	11,031	1,031
Total Revenues	<u>\$ 1,646,279</u>	<u>\$ 2,326,279</u>	<u>\$ 2,531,727</u>	<u>\$ 205,448</u>
EXPENDITURES				
Roads	\$ 1,238,319	\$ 1,784,386	\$ 1,768,350	\$ 16,036
Debt Service	44,225	47,425	44,504	2,921
Administration	343,735	474,468	267,451	207,017
Total Expenditures	<u>\$ 1,626,279</u>	<u>\$ 2,306,279</u>	<u>\$ 2,080,305</u>	<u>\$ 225,974</u>
Excess of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>20,000</u>	<u>20,000</u>	<u>451,422</u>	<u>431,422</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligations Proceeds			10,000	10,000
Transfers To Other Funds	(120,000)	(120,000)	(120,000)	
Total Other Financing Sources (Uses)	<u>(120,000)</u>	<u>(120,000)</u>	<u>(110,000)</u>	<u>10,000</u>
Net Changes in Fund Balance	(100,000)	(100,000)	341,422	441,422
Fund Balance - Beginning	<u>100,000</u>	<u>100,000</u>	<u>322,436</u>	<u>222,436</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 663,858</u>	<u>\$ 663,858</u>

**Reconciliation of Road Fund Budgetary Statement To Statement of Revenues
Expenditures, and Changes In Fund Balances – Governmental Funds – Modified Cash Basis**

Total Revenues Per Budgetary Statement	\$ 2,531,727	
Total Expenditures Per Budgetary Statement	\$ 2,080,305	
Expenditures On Behalf Of Fiscal Court	<u>45,500</u>	(2,125,805)
Total Financing Obligations Proceeds Per Budgetary Statement	\$ 10,000	
Financing Obligation Proceeds Paid Directly to Vendor	<u>45,500</u>	55,500
Total Transfers To Other Funds Per Budgetary Statement		(120,000)
Beginning Fund Balance Per Budgetary Statement		<u>322,436</u>
Ending Fund Balance Per Budgetary Statement and Statement of Revenues, Expenditures, and Changes In Fund Balances		<u>\$ 663,858</u>

GRAYSON COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 5,401,544	\$ 5,401,544	\$ 6,135,620	\$ 734,076
Charges for Services	78,000	78,000	77,988	(12)
Miscellaneous	205,000	205,000	179,943	(25,057)
Interest	30,000	30,000	22,956	(7,044)
Total Revenues	<u>\$ 5,714,544</u>	<u>\$ 5,714,544</u>	<u>\$ 6,416,507</u>	<u>\$ 701,963</u>
EXPENDITURES				
Protection to Persons and Property	\$ 4,053,835	\$ 4,756,335	\$ 4,667,075	\$ 89,260
Debt Service	735,000	799,500		799,500
Administration	2,105,709	1,338,709	1,184,669	154,040
Total Expenditures	<u>\$ 6,894,544</u>	<u>\$ 6,894,544</u>	<u>\$ 5,851,744</u>	<u>\$ 1,042,800</u>
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(1,180,000)</u>	<u>(1,180,000)</u>	<u>564,763</u>	<u>1,744,763</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(20,000)</u>	<u>(20,000)</u>	<u>(812,809)</u>	<u>(792,809)</u>
Total Other Financing Sources (Uses)	<u>(20,000)</u>	<u>(20,000)</u>	<u>(812,809)</u>	<u>(792,809)</u>
Net Changes in Fund Balance	(1,200,000)	(1,200,000)	(248,046)	951,954
Fund Balance - Beginning	<u>1,200,000</u>	<u>1,200,000</u>	<u>1,266,124</u>	<u>66,124</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,018,078</u>	<u>\$ 1,018,078</u>

GRAYSON COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**GRAYSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

GRAYSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	Federal Grant	Disaster and Emergency Services Fund	Emergency 911 Fund
ASSETS				
Cash and Cash Equivalents	\$ 97,373	\$	\$	\$ 4,298
Total Assets	<u>\$ 97,373</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,298</u>
 FUND BALANCES				
Unreserved:				
Special Revenue Funds	<u>\$ 97,373</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,298</u>
 Total Fund Balances	<u>\$ 97,373</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,298</u>

GRAYSON COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

Detention Facility Project Construction Fund	Building/ Equipment Fund	Total Non-Major Governmental Funds
\$	\$	\$ 101,671
\$ 0	\$ 0	\$ 101,671

\$	\$	\$ 101,671
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\$ 0	\$ 0	\$ 101,671
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GRAYSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

GRAYSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Federal Grant	Disaster and Emergency Services Fund	Emergency 911 Fund
REVENUES				
Taxes	\$	\$	\$	\$ 271,574
Intergovernmental	95,085	36,206	87,935	
Charges for Services				60,000
Miscellaneous	1,294			1,235
Interest	1,443			242
Total Revenues	<u>\$ 97,822</u>	<u>\$ 36,206</u>	<u>\$ 87,935</u>	<u>\$ 333,051</u>
EXPENDITURES				
General Government	\$ 6,309	\$	\$	\$
Protection to Persons and Property	59,711		87,935	320,831
General Health and Sanitation	16,405			
Recreation and Culture	3,553			
Debt Service				30,700
Capital Projects		36,206		
Administration				74,454
Total Expenditures	<u>\$ 85,978</u>	<u>\$ 36,206</u>	<u>\$ 87,935</u>	<u>\$ 425,985</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>11,844</u>			<u>(92,934)</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds				
Transfers From Other Funds				80,000
Total Other Financing Sources (Uses)				<u>80,000</u>
Net Change in Fund Balances	11,844			(12,934)
Fund Balances - Beginning	85,529			17,232
Fund Balances - Ending	<u>\$ 97,373</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,298</u>

GRAYSON COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Detention Facility Project Construction Fund	Building/ Equipment Fund	Total Non-Major Governmental Funds
\$	\$	\$ 271,574
		219,226
		60,000
		2,529
12	118	1,815
<u>\$ 12</u>	<u>\$ 118</u>	<u>\$ 555,144</u>
\$	\$	\$ 6,309
		468,477
		16,405
		3,553
	18,702	49,402
		36,206
	39	74,493
<u>\$ 0</u>	<u>\$ 18,741</u>	<u>\$ 654,845</u>
12	(18,623)	(99,701)
(66)	(1,296)	(1,362)
		80,000
<u>(66)</u>	<u>(1,296)</u>	<u>78,638</u>
(54)	(19,919)	(21,063)
54	19,919	122,734
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 101,671</u>

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**GRAYSON COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2004

**GRAYSON COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2004

STATE LAWS AND REGULATIONS

The County Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

On June 30, 2004 and August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$363,682 and \$232,164, respectively, of public funds uninsured and unsecured. According to KRS 66.480 (1)(d) and KRS 41.240 (4), the depository institutions should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Gary Logsdon's Response:

We will do what it takes to correct.

Magistrates Should Be Reimbursed For Automobile Usage Based On The County's Mileage Rate

The magistrates began receiving a \$650 per month car allowance as of July 2003. The Fiscal Court obtained a legal "opinion letter," dated April 14, 2000, addressed to the Executive Director of the Kentucky Magistrates and Commissioners Association from an attorney for the Association in which the attorney offers his legal opinion that, as he states in the letter:

"a county fiscal court could authorize a sum of money as a part of its appropriated annual budget as a reasonable car allowance to be paid on a regular (monthly, semi-monthly) basis to each magistrate for the use of his personal vehicle in the performance of his official duties."

Based upon our review of the Association attorney's letter, and, for the following reasons, we must respectfully disagree with his opinion as quoted above.

In his letter, the attorney states: "KRS 67.083 [referred to as the "home rule" statute] has been liberally interpreted relative to the broad powers granted to fiscal courts in the exercise of its governmental powers and functions **as long as that power has not been specifically restricted by other legislation.**"

In our opinion, this quotation is a correct statement of the law. We have emphasized the bolded portion of the quote, however, because KRS 64.710 does, in fact, **specifically restrict** the payment of **any** lump sum expense allowance to **any** public officer, including magistrates, unless such lump sum expense allowance is either expressly provided for by statute or specifically appropriated by the General Assembly.

GRAYSON COUNTY
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

Magistrates Should Be Reimbursed For Automobile Usage Based On the County's Mileage Rate
(Continued)

The payment to county magistrates of a \$650 per month car allowance is neither expressly provided for by statute, nor specifically appropriated by the General Assembly. The only expense allowance for magistrates we are aware of that is expressly provided for by statute is that found in KRS 64.530(6), which provides that "justices of the peace [magistrates] and county commissioners may receive no more than three thousand six hundred dollars (\$3,600) annually or three hundred dollars (\$300) per month as an expense allowance for serving on committees of the fiscal court." (Emphasis added)

In this instance, the power of the fiscal court "has been specifically restricted by other legislation," namely KRS 64.710, from authorizing the payment of a lump sum monthly or semi-monthly car allowance payment to county magistrates.

We recommend that the magistrates no longer receive a monthly car allowance and that they be reimbursed for actual travel cost in accordance with the county's travel guidelines. With regard to the car allowance paid during the audit period and since that time to date, the magistrates may submit acceptable documentation to determine if an overpayment exists that is subject to repayment.

Furthermore, as it is a duty of the county attorney, according to KRS 69.210(3), to "oppose all unjust or illegally presented claims," we are referring this matter to the Grayson County Attorney for further investigation to determine whether to seek repayment from the magistrates to the county of the unauthorized expense allowance amounts received since July 2003. See, OAG 77-382.

County Attorney Thomas H. Goff's Response:

It is our understanding that the County Attorney's response is on the behalf of the County Judge/Executive and the two magistrates that were present at the exit conference, August 9, 2005, with the auditors. Please see the next two pages for the County Attorney's response.

GRAYSON COUNTY
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)



THOMAS H. GOFF
GRAYSON COUNTY ATTORNEY
10 PUBLIC SQUARE
P. O. BOX 4100
LEITCHFIELD, KENTUCKY 42755-4100

PHONE
270-259-9306

FAX
270-259-9861

August 26, 2005

Auditor of Public Accounts
ATTN: Mr. Jeff Fryman
105 Sea Hero Road, Suite 2
Frankfort KY 40601

RE: Grayson County Audit

Dear Mr. Fryman:

This letter is in response to questions raised by your office with regards to magistrates receiving a monthly car allowance.

As you are aware, the members of the Grayson Fiscal Court reviewed the vehicle allowance for a considerable period of time before implementing it in July 2003. They worked with the Magistrates and Commissioners Association, obtained an opinion from an attorney for the Magistrates and Commissioners Association, as well as talked with the Department of Local Government.

Because of the expense of fulfilling the obligations of their office, Richard Tanner, Executive Director of the Magistrates and Commissioners Association, encouraged the Grayson Fiscal Court to adopt a vehicle allowance. Mr. Tanner furnished the Fiscal Court with an opinion from Brent Caldwell, a former Assistant Attorney General, who opined that:

"a County Fiscal Court could authorize a sum of money as part of its appropriated annual budget as a reasonable car allowance to be paid on a regular (monthly, semimonthly) basis to each magistrate for the use of his personal vehicle in the performance of his official duties."

This opinion was based on the case of Concerned Citizens for Pike County vs. County of Pike, Ky. App. 984, S.W.2d 102 (1998) which allowed Pike County to spend county funds to purchase vehicles to be used by the county magistrates.

GRAYSON COUNTY
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

Mr. Jeff Fryman
August 26, 2005
Page 2 of 2

After receiving this encouragement from Mr. Tanner and opinion from Mr. Caldwell, the magistrates contacted the Department of Local Government. The Department of Local Government told them that they did not see any problems with the vehicle allowance.

In reviewing the correspondence and consulting with the persons involved in proposing the monthly lump sum vehicle allowance, I am of the opinion that an action against the magistrates for repayment of the lump sum vehicle allowance is not justified. Before voting on this matter, the magistrates made every good faith effort possible to see that their actions were legally permissible.

With regards to the Fiscal Court continuing to make the lump sum vehicle allowance, I will defer to the opinion of the Attorneys for the Auditor's Office and instruct the Fiscal Court to discontinue the lump sum payments. I will make this recommendation, although there may be legal authority to permit the payment. I will further instruct the magistrates that if they desire to be reimbursed for their mileage, they will need to keep and maintain mileage records and present this to the Fiscal Court for reimbursement.

Thank you for the opportunity to address this issue. Should you have any questions, please feel free to contact me.

Sincerely,



Thomas H. Goff

THG/psw

c: Gary Logsdon
Grayson County Judge/Executive

County Judge/Executive Gary Logsdon's Additional Response:

As of the date of the exit conference with the auditors, the magistrates stopped the practice of receiving a monthly car allowance. At the next fiscal court meeting, the magistrates voted to be reimbursed for automobile usage based on the county's mileage rate.

GRAYSON COUNTY
SCHEDULE OF COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

The County Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits.

This was not corrected and is repeated in the current year audit.

Internal Controls Over Payroll Processing Were Weak Resulting In Misappropriation Of Assets Of The County.

This has been corrected.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Gary Logsdon, Grayson County Judge/Executive
Members of the Grayson County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Grayson County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 9, 2005. Grayson County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Grayson County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grayson County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed instances of material noncompliance that are required to be reported under Government Auditing Standards and are described in the accompanying schedule of comments and recommendations.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



Report On Internal Control Over Financial Reporting And
On Compliance and Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters (Continued)

- Magistrates Should Be Reimbursed For Automobile Usage Based On The County's Mileage Rate

This report is intended solely for the information and use of management and the Kentucky Governor's Office of Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 9, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

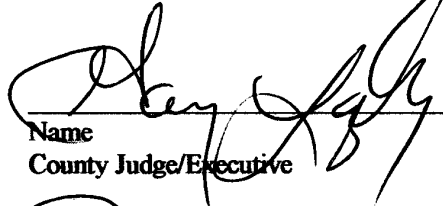
GRAYSON COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

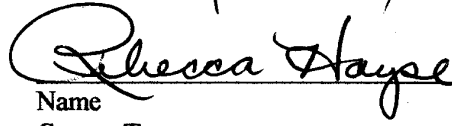
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
GRAYSON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Grayson County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer